

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-009
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-009

12th DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Roger Coate, President
Board of Directors
12th DAA, Redwood Empire Fair
1055 N. State Street
Ukiah, California 95482

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 12th District Agricultural Association (DAA), Redwood Empire Fair, Ukiah, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 12th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

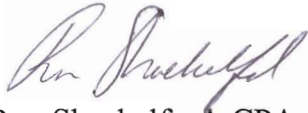
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 12th DAA, Redwood Empire Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 12th DAA, Redwood Empire Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-009, on the 12th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 12th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

May 14, 2009

**12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111-117	\$ 783,514	\$ 459,738
Accounts Receivable, Net	131-133	11,403	15,560
Inventory	141	235	400
Deferred Charges	143	-	199
Construction in Progress	190	-	122,298
Land	191	52,358	52,358
Buildings and Improvements, Net	192	1,468,508	1,421,676
Equipment, Net	193	-	3,213
TOTAL ASSETS		<u>2,316,018</u>	<u>2,075,442</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	211-213, 259	50,453	15,746
Payroll Liabilities	221-226	902	1,810
Deferred Income	228	41,946	44,822
Guaranteed Deposits	241	15,446	8,785
Racetrack Improvement Fund	243	(2,755)	997
Compensated Absences Liability	245	17,194	16,359
Total Liabilities		<u>123,186</u>	<u>88,518</u>
Net Resources			
Net Resources - Junior Livestock Auction	251	43,547	43,179
Net Resources - Operations	291	628,419	344,200
Net Resources - Capital Assets, less Related Debt	291.1	1,520,866	1,599,545
Total Net Resources Available		<u>2,192,832</u>	<u>1,986,924</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,316,018</u>	<u>\$ 2,075,442</u>

**12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Capital Project Reimbursement Funds	319	36,301	6,249
Admissions	410	102,315	92,048
Commercial Space	415	16,325	17,165
Carnival	421	55,733	54,547
Food Concessions	422	38,402	37,499
Exhibits	430	400	400
Attractions - Fairtime	460	13,475	25,721
Interim Attractions	469	64,328	69,642
Miscellaneous Fair	470	62,973	56,881
JLA Revenue	476	31,979	39,651
Non-Fair Revenue	480	664,180	400,019
Prior Year Adjustment	490	(147)	3,105
Other Revenue	495	15,654	26,264
Total Revenue		<u>1,251,918</u>	<u>979,192</u>
EXPENSES			
Administration	500	290,203	273,193
Maintenance and Operations	520	370,488	337,571
Publicity	540	28,542	28,140
Attendance	560	25,339	27,888
Miscellaneous Fair	570	26,677	12,764
JLA Expense	576	31,612	32,605
Premiums	580	12,249	12,884
Exhibits	630	51,142	56,881
Fairtime Attractions, Interim Attractions	660	74,257	64,829
Interim Entertainment Expense	670	16,205	10,739
Prior Year Adjustments	800	8,110	491
Cash Over/Short from Ticket Sales	850	239	55
Depreciation Expense	900	90,093	89,516
Other Funding	945	20,855	6,249
Total Expenses		<u>1,046,010</u>	<u>953,807</u>
RESOURCES			
Net Change - Income / (Loss)		205,908	25,385
Resources Available, January 1		1,986,924	1,961,539
Resources Available, December 31		<u>\$ 2,192,832</u>	<u>\$ 1,986,924</u>

**12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 205,908	\$ 25,385
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Increase (Decrease) in Accounts Receivable	4,157	3,281
Increase (Decrease) in Inventory	165	(320)
Increase (Decrease) in Deferred Charges	199	(199)
Increase (Decrease) in Racetrack Improvement Fund	(3,751)	997
(Increase) Decrease in Accounts & Other Payables	34,707	(15,305)
Increase (Decrease) in Deferred Income	(2,876)	33,786
Increase (Decrease) in Miscellaneous Liabilities	(908)	159
Increase (Decrease) in Compensated Absence Liability	835	1,801
(Increase) Decrease in Guarantee Deposits	6,661	(19,808)
Total Adjustments	<u>39,188</u>	<u>4,392</u>
Net Cash Provided (Used) by Operating Activities	<u>245,097</u>	<u>29,777</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	122,298	119,194
(Increase) Decrease in Buildings & Improvements, Net	(46,832)	(42,860)
(Increase) Decrease in Equipment, Net	<u>3,213</u>	<u>1,606</u>
Net Cash Provided (Used) by Investing Activities	<u>78,679</u>	<u>77,940</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	107,719	107,719
Cash at Beginning of Year	459,738	352,021
CASH AT END OF YEAR	<u><u>\$ 783,514</u></u>	<u><u>\$ 459,738</u></u>

**12th DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 12th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Redwood Empire Fair each year in Ukiah, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash/Change Fund	\$ 1,718	\$ 2,718
Cash in Bank - Operating	37,370	11,222
Cash in Bank - Premium	3,477	2,683
Cash in Bank - Payroll	11,628	689
Cash in Bank - Auction	41,625	42,198
Cash in Bank - Investment & Savings	<u>687,696</u>	<u>400,228</u>
 Total Cash and Cash Equivalents	 <u>\$ 783,514</u>	 <u>\$ 459,738</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 13,988	\$ 18,144
Allowance for Doubtful Accounts	<u>(2,585)</u>	<u>(2,585)</u>
 Accounts Receivable - Net	 <u>\$ 11,403</u>	 <u>\$ 15,560</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 3,668,392	\$ 3,531,284
Less: Accumulated Depreciation	<u>(2,199,884)</u>	<u>(2,109,608)</u>
Building & Improvements - Net	<u>\$ 1,468,508</u>	<u>\$ 1,421,676</u>
 Equipment	 \$ 138,738	 \$ 160,149
Less: Accumulated Depreciation	<u>(138,738)</u>	<u>(156,936)</u>
Equipment - Net	<u>\$ 0</u>	<u>\$ 3,213</u>

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **DEFERRED INCOME**

Deferred income at December 31, 2008 totaling \$41,946 consist of unspent 2007 Flex Capital Funds totaling \$6,946 and 2008 Flex Capital Funds totaling \$35,000.

NOTE 8 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations. Fair management believes none of which will have a material effect on its financial position or results of operations.

**12th DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 12th DAA Board of Directors
1	Chief Executive Officer, 12th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA

MANAGEMENT REPORT #09-009

YEAR ENDED DECEMBER 31, 2008

12TH DISTRICT AGRICULTURAL ASSOCIATION
REDWOOD EMPIRE FAIR
UKIAH, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER

#09-009

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Roger Coate, President
Board of Directors
12th DAA, Redwood Empire Fair
1055 N. State Street
Ukiah, California 95482

In planning and performing our audit of the financial statements of the 12th District Agricultural Association (DAA), Redwood Empire Fair, Ukiah, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Redwood Empire Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 12th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 12th DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 12th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 12th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 12th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 12th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements, sponsorship policies and procedures, and accounting for courtesy and credential admissions. We have provided seven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 12th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of standard agreements entered into by the Fair revealed the following lack of compliance with the Division of Fairs and Expositions (F&E) Contract Manual and existing State policies and procedures:

- a. The Fair does not prepare service contracts on the approved Standard 210 or 213 Agreement as required by the Department of General Services (DGS) and the F&E Contract Manual. The Fair continued to use the outdated Standard 2 Agreement, which was replaced in 2004. The Std 210 Agreement is to be used for all contracts less than \$10,000 and Std 213 for all contracts greater than or equal to \$10,000.
- b. The Fair did not complete a Std 215 Agreement Summary for two contracts over \$10,000 that should have been prepared on a Std 213 Agreement. The Std 215 Agreement Summary replaced the Std 15 Contract Transmittal and Pre-evaluation Form.
- c. The Fair did not have Contractor Certification Clause Forms (CCC 307) completed for service contracts entered into. The CCC 307 form is required to be completed and signed for all service contracts.
- d. The Fair did not submit a multi-year service contract exceeding \$75,000 to F&E for approval. In addition, there was no written justification explaining why the multi-year agreement is in the best interest of the Fair. According to the contract manual, if a contract is for more than one year or contains options to renew which, if exercised, would make the contract multi-year, a written justification explaining why multi-year contracts are in the best interest of the DAA must be included in the contract file and in the contract package if the contract requires F&E approval.

Recommendations

1. *The Fair should comply with the DGS and the F&E Contract Manual and use the correct standard agreement when preparing a service contract with an independent contractor.*
2. *The Fair should comply with the F&E Contract Manual by completing a Std. 215 Agreement Summary for all Std. 213 Agreements entered into.*
3. *The Fair should comply with the F&E Contract Manual by ensuring that Contractor Certification Clause forms are complete and signed for all service contracts.*
4. *The Fair should ensure that all contracts exceeding \$75,000 are submitted to F&E for approval and that a written justification why the multi-year agreement is in the best interest of the Fair is prepared and included in the contract file.*

SPONSORSHIP POLICY & PROCEDURES

Our office found when reviewing the 12th DAA's Policy & Procedure Manual that the Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the F&E Contract Manual, Chapter 6 § 6.25. According to the F&E Contract Manual the process to follow is: a) DAA Boards establish "procedures" for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contract Manual requirements or F&E approval. They are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1(b) does require F&E pre-approval on sponsorship contracts that exceed \$100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

5. *The Fair Board of Directors should comply with the F&E Contract Manual and establish policies and procedures for entering and securing sponsorship agreements.*

ACCOUNTING FOR COURTESY AND CREDENTIAL ADMISSION PASSES

On the 2008 Statement of Operations (STOP), the 12th DAA listed that it issued 300 courtesy admission passes during the 2008 fair. The 300 passes represent 1.4% of the prior year's paid admissions and allow the Fair to be in compliance with Food and Agriculture Code Section 3026, which limits courtesy passes to 4% of prior year's paid attendance. However, our office noted the 300 passes may be an estimate, as the Fair did not maintain a list nor could they produce any supporting document as to how the 300 passes was derived. Furthermore, when reviewing the past eight STOPS the Fair also lists 300 courtesy admissions passes as being issued each year. Food and Agriculture Code Section 3028 requires that each Fair maintain complete records of the number of credential and courtesy pass admissions which are issued for each Fair period.

In addition, our office noted that credential admission passes issued by the Fair do not contain the words "credential admission" printed on the ticket as required by the Food and Agriculture Code, Section 3025. The purpose on this procedure is to differentiate credential tickets from courtesy and other types of discounted tickets issued.

Recommendations

6. *The Fair should comply with Food and Agriculture Code Section 3028 by ensuring it maintains a listing and other necessary supporting documentation of the courtesy passes issued by the Fair.*
7. *The Fair should comply with Food and Agriculture Code Section 3025 by ensuring that all credential admission tickets issued to vendors and others contain the words "credential admission."*

NON-REPORTABLE CONDITIONS

TEMPORARY EMPLOYEES

An examination of temporary employee records revealed the following exceptions:

- a. The Fair did not prepare and submit the DE 34, Report of New Employee(s), to the EDD New Employee Registry as required. Federal law requires all employers to report to the EDD within 20 days of their start-of-work date.
- b. The Fair allowed one temporary employee to work in excess of the 119-day limitation within a calendar year. The employee worked 147 days. According to the Accounting Procedures Manual (APM), "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy.

Recommendations

The Fair should ensure that the DE 34, Report of New Employee(s), is prepared and submitted to the EDD New Employee Registry within 20 days of their start-of-work date.

The Fair should comply with the APM and the State Constitution limitation and ensure that no temporary employee work in excess of the 119-day limitation.

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.

PETTY CASH

The Fair improperly reimbursed a few business related food expenditures through the petty cash fund. Although in this instance the amounts were minor, food expense reimbursements should be made through the same payment process as payments to vendors, not the petty cash fund, which is used for incidental purchases such as postage, transportation charges, or the purchase of urgently needed supplies.

In addition, business related food expenditures must include names of all recipients and the reason why the business had to be conducted during the meal period. The claim must also justify providing food by specifying the topics discussed during the event and the necessity of or the benefit expected to accrue to the Fair by providing food to the individuals

Recommendations

The Fair should reimburse business related food expenditures through the same payment process as payments to vendors.

The Fair should follow the APM and document the names of all recipients receiving the meal, reason why the business had to be conducted during the meal period, justification for providing the meal, and topics discussed and benefit expected to accrue to the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

Reportable Conditions

Standard Agreements

The fair will comply with the DGS and F & E Contract Manual and use the correct standard agreement when preparing a service contract with an independent contractor.

The fair will complete a Std. 215 Agreement Summary for all Std. 213 Agreements it enters into.

*The fair will complete Certification Clause forms for all service contracts.
All contracts exceeding \$75,000 will be submitted to F7 E for approval with written justification for multi-year agreements.*

Sponsorship Policy and Procedures

The Fair Board of Directors will comply with F & E Contract Manual and establish a sponsorship policy.

Accounting for Courtesy and Credential Admission Passes

The will comply with Food and Agriculture Code Section 3028 by ensuring it maintains a listing and other necessary supporting documentation for the courtesy passes issued by the Fair.

The fair will add "credential admission" to all tickets that will be issued to vendors.


**Roger Coate, President
Board of Directors
Redwood Empire Fair**
Jennifer Seward, CEO

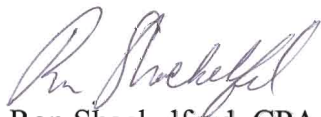
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 12th DAA, Redwood Empire Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 4, 2009 and May 15, 2009. My staff met with management on May 14, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

May 14, 2009

REPORT DISTRIBUTION

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